

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 NSAE-00 NSCE-00  
SSO-00 ICAE-00 INRE-00 AID-05 COME-00 EB-08  
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-----011552 031634Z /43

O 031524Z JUL 78  
FM AMEMBASSY ROME  
TO SECSTATE WASHDC IMMEDIATE 3983  
DEPARTMENT OF TREASURY WASHDC IMMEDIATE

C O N F I D E N T I A L ROME 12278

E.O. 11652: GDS  
TAGS: EFIN, IT  
SUBJECT: ITALIAN POSITION ON MONETARY UNION

1. SUMMARY. EUROPEAN MONETARY UNION HAS BEEN THE SUBJECT OF MUCH DEBATE RECENTLY, BOTH IN THE PRESS AND IN THE COUNCILS OF GOVERNMENT. IN A RECENT NEWSPAPER INTERVIEW, FOREIGN TRADE MINISTER OSSOLA OUTLINED THE REASONS WHY ITALY SHOULD NOT ADHERE TO ANY RIGID "SNAKE" ARRANGEMENT. IN A DISCUSSION WITH TREASATT, ECONOMIC COUNSELOR OF BANK OF ITALY REVEALED SOME STAFF LEVEL SUPPORT FOR ITALY'S PARTICIPATION IN SOME KIND OF SNAKE BUT TOP ECHELON OF BANK REPORTEDLY NOT CONVINCED. CLAPPIER OF THE BANK OF FRANCE DELIVERS PERSONAL LETTER FROM GISCARD TO ANDREOTTI ON THE SUBJECT. END SUMMARY.

2. IN A RECENT INTERVIEW IN MILAN'S DAILY IL SOLE-24 ORE (JUNE 27), OSSOLA MADE THE FOLLOWING POINTS AGAINST ITALY'S JOINING A NEW EUROPEAN SNAKE:

A. EXPERIENCE INDICATES THAT THE OLD SNAKE ARRANGEMENT WORKED WELL ONLY AT TIMES OF CALM EXCHANGE MARKET ACTIVITIES. WHENEVER A CURRENCY  
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RAN INTO DIFFICULTIES, IT WAS FORCED EITHER TO GO OUT OF THE SNAKE OR TO DEVALUE, IN EITHER CASE AFTER THE LOSS OF CONSIDERABLE RESERVES AND SOMETIMES LEADING TO POLITICAL PROBLEMS;

B. SINCE CENTRAL BANKS' INTERVENTION MARGINS WERE KNOWN, THIS TENDED TO CREATE SPECULATIVE MOVEMENTS;

C. IT IS NOT ADVISABLE TO LOSE PAINFULLY ACCUMULATED RESERVES OR EVEN TO BORROW IN ORDER TO DEFEND UNREALISTIC EXCHANGE RATES;

D. ANY PARTICIPATION IN AN INTERNATIONAL MONETARY AGREEMENT CANNOT ABSTRACT FROM THE UNDERLYING ECONOMIC SITUATION. IN THE ITALIAN CASE, IT WOULD NOT MAKE SENSE TO JOIN A (GERMAN-DOMINATED) SNAKE WHEN ITALY'S INFLATION RATE IS SO MUCH HIGHER THAN THAT OF THE OTHER EUROPEAN COUNTRIES.

3. AS A COUNTER PROPOSAL, OSSOLA SUGGESTS THAT THE COMMUNITY AGREE TO SET CONFIDENTIAL INTERVENTION MARGINS WHICH ANY COUNTRY COULD MODIFY AT ANY TIME ON THE BASIS OF ITS BALANCE OF PAYMENTS POSITION. IN ANY CASE, HE RECOMMENDS THAT ITALY NOT AGREE TO DEPRECIATE THE LIRA BY MORE THAN THE INFLATION DIFFERENTIAL WITH ITS TRADING PARTNERS.

4. BEGIN CONFIDENTIAL. DISCUSSING MONETARY UNION WITH TREASATT, GIOVANNI MAGNIFICO, ECONOMIC COUNSELOR OF BANK OF ITALY, SAID THAT AT THE STAFF LEVEL OF THE BANK THERE IS SOME SUPPORT FOR PARTICIPATING IN A NEW EUROPEAN SNAKE ARRANGEMENT BUT THAT THE TOP ECHELON OF THE BANK IS NOT SUPPORTIVE OF SUCH A MOVE. MAGNIFICO GAVE THE CLEAR IMPRESSION THAT HE WAS A PRINCIPAL EXPONENT OF SUCH PARTICIPATION. AT ONE CONFIDENTIAL

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POINT, HE BECAME QUITE DRAMATIC IN HIS ESPOUSAL, SAYING THAT ITALY'S FAILURE TO JOIN MAY BE TANTAMOUNT TO THE UK'S REFUSAL IN THE 1960'S TO JOIN THE EEC. HE MAINTAINED THAT A COMMITMENT TO A EUROPEAN MONETARY ARRANGEMENT IS A MUCH-NEEDED EXTERNAL DISCIPLINE TO COUNTER DOMESTIC INFLATIONARY PRESSURES. MAGNIFICO BELIEVED THAT THE BEST ONE COULD HOPE FOR ON THIS SUBJECT FROM THE BREMEN SUMMIT IS AN AGREEMENT IN PRINCIPLE, MUCH LIKE THE ONE WORKED OUT BY THE EEC MONETARY EXPERTS. END CONFIDENTIAL.

5. ACCORDING TO PRESS REPORTS, CLAPPIER FROM THE BANK OF FRANCE WAS IN ROME LATE LAST WEEK TO DELIVER A PERSONAL LETTER FROM GISCARD TO ANDREOTTI ON THE SUBJECT OF MONETARY UNION. THE REPORTS DID NOT REVEAL THE CONTENTS OF THE LETTER. ANDREOTTI IS SCHEDULED TO HOLD A COUNCIL OF MINISTERS MEETING TODAY (JULY 3) TO DECIDE ON THE ITALIAN POSITION FOR THE BREMEN SUMMIT. GARDNER

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## Message Attributes

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**Concepts:** POLICIES, LABOR UNIONS, CURRENCY CONTROLS  
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**TAGS:** EFIN, IT  
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**Review Markings:**  
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